

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02
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UNCLAS ROME 5266

PASS FRB

E.O. 11652: N/A
TAGS: EFIN, IT
SUBJ: BANK CREDIT CEILINGS EXTENDED FOR A YEAR

REF : ROME 16959

1. CEILINGS ON EXPANSION OF BANKS' LIRA CREDITS TO LARGE
RESIDENT CUSTOMERS HAVE BEEN RENEWED TO MARCH 31, 1978.
FROM BASE PERIOD MARCH-SEPTEMBER 1976, EACH BANK'S GLOBAL
CREDIT EXPANSION IS LIMITED TO: 12 PERCENT AT END MAY 1977;
14 PERCENT AT END JULY; 13 PERCENT AT END SEPTEMBER; 16 PERCENT
AT END NOVEMBER; 23 PERCENT AT END JANUARY; 25 PERCENT AT
END MARCH 1978.

2. NEW DIRECT CREDIT CONTROL PROGRAM IS SLIGHTLY ALTERED
FROM PROGRAM IN PLACE SINCE OCTOBER 1976 AND DUE TO EXPIRE
MARCH 31, 1977 (REFTEL). BASE IS NOW DEFINED AS AVERAGE AMOUNT
OF CREDIT OUTSTANDING DURING MARCH-SEPTEMBER 1976 IN ORDER
TO REDUCE DISTORTIONS AND INEQUITIES ARISING FROM SINGLE DATE
BASE (JUNE 30, 1976) IN OLD PROGRAM. IN ADDITION, UNDER THE
NEW CEILINGS, THE EXEMPTION FOR SMALL BORROWERS HAS BEEN
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REDUCED TO 30 MILLION LIRE FROM 100 MILLION LIRE. THUS,
IF A BANK'S OUTSTANDING LOANS TO A GIVEN BORROWER EXCEED 30
MILLION LIRE, THE BANK'S ADDITIONAL LENDING TO THAT CUSTOMER
IS INCLUDED IN TOTAL OF THE BANK'S LOANS WHICH IS SUBJECT
TO THE CEILINGS. IT SEEMS THAT THE AUTHORITIES HAVE NOTICED
AN ABNORMALLY RAPID INCREASE IN BANK CREDIT TO PREVIOUSLY
EXEMPTED BANK BORROWERS AND ARE SEEKING TO MAKE IT MORE DIFFICULT-

FOR FIRMS TO EVADE THE CONTROLS BY ARTIFICIALLY SPLITTING THEMSELVES INTO SMALLER FINANCIAL ENTITIES. CREDITS IN FOREIGN EXCHANGE (WHICH, OF COURSE, MAY BE CONVERTED INTO LIRE FOR DOMESTIC USE) REMAIN EXEMPT FROM THE NEW CEILINGS AS THEY WERE FROM THE OLD.

3. IN RENEWING THE CEILINGS, THE BANK OF ITALY STATED: "THE ABOLITION OF THE TAX ON FOREIGN EXCHANGE PURCHASES AND THE PROGRESSIVE ELIMINATION OF THE PRIOR EXCHANGE DEPOSIT ARE DEPRIVING THE LIRA OF SOME OF THE DEFENSES THAT HAVE OPERATED IN THE PAST MONTHS, WHILE, IN 1977, THE TRENDS FORESEEN IN PRICES AND COSTS OF PRODUCTION MAKE NECESSARY FURTHER ACTION TO DEFEND THE LIRA AND SLOW INFLATION." THE NEW CEILINGS ARE ALSO REPORTEDLY CONSISTENT WITH THE 30,000 BILLION LIRE LIMIT ON GLOBAL DOMESTIC CREDIT- EXPANSION FOR THE PERIOD APRIL 1, 1977-MARCH 31, 1978, CONTAINED IN THE GOVERNMENT'S DRAFT LETTER OF INTENT TO THE IMF.GARDNER

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